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S E C R E T SECTION 01 OF 03 PRAGUE 000815

SIPDIS

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TAGS: [MASS](#) [PREL](#) [BEXP](#) [KCRM](#) [EZ](#)

SUBJECT: TROUBLING SIGNALS IN LARGEST CZECH MILITARY  
PROCUREMENT

Classified By: Political-Economic Counselor Mike Dodman for reasons 1.4  
B+D

11. (S) Summary: The current \$1 billion Czech Army tender for armored vehicles -- the military's largest procurement to date -- is designed to avert past problems with transparency, with PriceWaterhouseCoopers engaged to run the tender instead of the MOD's Armaments Directorate. The two main declared participants in the tender are the Austrian Steyr (owned by General Dynamics) and the Finnish Patria. A second GD subsidiary, Mowag of Switzerland, was considering competing until GD decided to go with only one of its firms. DefMin Kuehnl has complained that this decision hurts the GOCR's goal of holding a "non-discriminatory tender." Kuehnl and other MOD officials have pushed hard for inclusion of Mowag in the tender; Mowag has close business ties with the politically influential Czech arms trading firm Omnipol, which maintains strong influence with the MOD Armaments Directorate. Of equal concern is a comment from a senior Czech Army officer that if Mowag does not participate in the tender, the contract could go to a firm without American ties. On the other hand, National Security Advisor Kostelka has recommended that GD stick to its position and do what it believes makes sense.

12. (S) Post has informed GD of the approaches from GOCR officials. The decision of which firm to compete, and whether or not to have both GD subsidiaries in the tender, is one for the company to make. Our concern is that the process remain fair and transparent. We intend to use the Ambassador's upcoming meetings with new PM Paroubek and other senior officials to reinforce our expectation that this be a clean tender. End Summary.

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CR's largest tender was designed to be cleaner than the Gripen  
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13. (C) The tender for 234 eight-wheeled armored vehicles, worth 22 billion Czech crowns or approx. \$1 billion, is the largest military procurement in Czech history, exceeding even the supersonic aircraft tender that was eventually won by the Swedish Gripen. This tender has been under discussion for over a year, and was finally approved by the GOCR in April, with bids due on June 22. In an effort to counter criticism about the overall lack of transparency in military procurement, and in particular the supersonic fighter tender, the Czech MOD has tried to make the current tender a model, engaging PriceWaterhouseCoopers to prepare the tender documents and handle the evaluation of bids. Embassy's assessment is that PWC is doing a good job of preparing a transparent and open process.

14. (C) The two firm bidders to date are Patria of Finland (owned by the Finnish Government and EADS), and Steyr Spezialfahrzeug of Austria, a subsidiary of General Dynamics. The Swiss Mowag (Motorwagenfabrik AG) was also considering entering the competition. However, General Dynamics, which through the General Dynamics European Land Combat Systems owns both Steyr and Mowag, decided that only Steyr would bid for this tender, citing the bad experience recently when the two firms competed against each other (and Patria) in a similar tender in Portugal. GD also understands that Embassy advocacy efforts (in cooperation with the Austrian and/or Swiss embassies) would be hampered if more than one U.S.-affiliated firm is competing.

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Czech complaints  
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15. (C) Czech Defense Minister Kuehnl first complained to Ambassador on March 25 that he was concerned by reports that Mowag would not take part in the tender. Citing the MOD's strong desire that this be a fully competitive process, Kuehnl said the failure of Mowag to participate in the tender would weaken the competition. He repeated the complaint in subsequent discussions with the Ambassador, and DATT and others have heard the same from others. In a May 16 letter to the Ambassador (received May 19; faxed to EUR/NCE) Kuehnl recalls the well known USG position that Czech military acquisitions should be fully transparent and complains that GD's decision to compete only one subsidiary "is at variance with our aim to hold a non-discriminatory tender." Kuehnl

goes on to request the Ambassador's support in having "the highest possible number of potential bidders," noting the MOD's desire to chose from "the truly best products available, which Mowag's portfolio definitely represents." Embassy has shared the letter with GD and the Austrian embassy, with whom we have been coordinating on this tender for some time. Ambassador responded to Kuehnl on May 23, noting that the USG does not direct the commercial decisions of private firms, and restating our expectation that this be a transparent tender.

16. (S) During a private discussion with Ambassador on May 20 on the margins of a meeting on other topics, Chief of the Czech General Staff Pavel Stefka said that he believes it would be a "problem for the GOCR" if the U.S.-connected company does not win the tender. "We don't want the same result as the supersonic tender" said Stefka. He added that it is the Czech military's consensus that Mowag produces a better vehicle than Steyr.

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Omnipol connections, BAe, and other behind-the-scenes activity  
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17. (S) Allegations of corruption and favoritism in the controversial supersonic fighter tender centered around the Czech arms trading firm Omnipol, which maintains very close ties with the MOD Armaments Division and Deputy Defense Minister Kopriva, who is an appointee of the junior coalition partner, the Christian Democrats. Omnipol is known to have had close links with Mowag, raising suspicion -- which we are not able to confirm or deny -- that they may be behind efforts to make sure that Mowag is included in the tender.

18. (S) We understand that British Aerospace is also aggressively supporting the bid by its Finnish subsidiary. One potential new development is a bid under consideration by United Defense -- a U.S. firm owned by BAe North America. If it entered the competition, this would put a stop to embassy advocacy for either of the GD subsidiaries, if the UDI bed were judged to be realistic.

19. (S) There have been allegations that Czech firms that would provide maintenance and support for the new vehicle fleet are the real behind-the-scenes players, trying to influence the process one way or another. These firms also maintain close MOD contacts, and include state-owned entities. One Member of Parliament who closely follows military procurements supported this with his assessment to us the tender was, in fact, proceeding with the hoped-for transparency in the sense that the actual suppliers were so far behaving appropriately.

110. (S) PM Paroubek's National Security Advisor (and former Defense Minister) Miroslav Kostelka, in a meeting with DCM on May 26, suggested that Deputy DefMin Kopriva is a protagonist for Omnipol, much as he was during the supersonic tender. He faulted DefMin Kuehnl for not exercising more control over Kopriva, but gave assurances about PWC oversight and GD's right to compete as it decides without damage to Steyr, which he recognized has a good product. (See septel.)

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Next steps  
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11. (U) Embassy has kept GD informed of our discussions with the Czechs. We have told the firm, as we have told the GOCR, that it is GD's decision which subsidiary or subsidiaries to compete. We will calibrate our advocacy on behalf of U.S. suppliers based on the decisions of the firms. (Note: from our discussions with GD staff, we understand they remain reluctant to compete both subsidiaries in this tender, and that they recently turned down a request in another country to switch suppliers.)

12. (C) Our primary concern at this point is with the process. We will continue to make clear at all levels of the GOCR that we expect to see transparency in all stages of the acquisition. Ambassador will stress this in his introductory call on new Prime Minister Paroubek, scheduled for June 9, and in other appropriate meetings. DCM will follow-up with Kostelka and with Deputy DefMins Belcik and Kopriva; DAT and others will reinforce as appropriate.

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